

The complaint

Mr S complains that Tandem Home Loans Ltd ('Tandem') gave him a secured loan without adequately checking it would be affordable.

What happened

Following advice from a third-party broker, Mr S took out a secured loan with Tandem in October 2023. The loan was for £26,000 (plus fees totalling £3,190) and was to be repaid over a term of 18 years. The interest rate was to be fixed for the first five years at a rate of 10.14% followed by a variable rate for the remaining term. The purpose of the loan was to consolidate some of Mr S's unsecured debts.

Mr S complained to Tandem in May 2024. He doesn't think the loan should have been approved and referred to Tandem having previously rejected a loan application he'd made. He said he was in financial difficulties at the time the loan was granted and, therefore, Tandem should not have lent to him.

Tandem didn't uphold Mr S's complaint. It said it'd conducted an affordability assessment which showed the loan was affordable. It also found that his existing credit had been well maintained, indicating a stable financial position. It said an application had been made in August 2023 for a loan over a shorter repayment term which didn't meet its affordability criteria. But when Mr S applied for the loan through a broker, the repayment term was longer which meant the monthly payments were lower and met Tandem's criteria. In summary, Tandem said it hadn't lent to Mr S irresponsibly.

Our Investigator thought Mr S's complaint should be upheld. He concluded that Tandem ought to have questioned if the information it'd been provided was accurate. He felt a more in-depth review of Mr S's finances should have taken place. And, that if Tandem had done that, it would have shown the loan wasn't affordable or sustainable for Mr S. To put things right the Investigator recommended that Tandem should remove all interest and fees from the loan balance and remove any adverse entries about the loan on Mr S's credit file. He also said that Tandem and Mr S would need to reach a sustainable arrangement for how Mr S would repay the remaining debt.

Tandem didn't accept that. It said, in summary:

- Mr S had applied to Tandem in March 2023 for a loan through a different broker. A mortgage offer was issued but Mr S decided not to proceed with that application. The information submitted in that case was consistent with the information provided for the loan application that completed. That is, Mr S's wife was non-dependant, and they had no children.
- It's not fair to assume that multiple applications were being submitted to meet its lending criteria as that isn't the case.
- It's unfair for Tandem to be held responsible for incorrect information provided to it by Mr S. It had no reason to suspect it was being provided with incorrect information.

- It's not obliged to obtain bank statements and so it's not fair to suggest that it should have done so in Mr S's case.
- There was no evidence of Mr S taking cash advances from his credit card on review of his credit file. And there was no evidence Mr S was gambling.

Tandem asked for an Ombudsman to decide on the complaint. So, the case has been passed to me to review. I reached the same outcome as the Investigator but for partly different reasons. So, I issued a provisional decision to give both parties the opportunity to make further submissions.

My provisional decision

I said:

“Tandem had a duty to lend to Mr S responsibly. In doing so it had to take account of whether the proposed new loan would be affordable for Mr S on a sustainable basis. When assessing Mr S's application, it obtained various information and documents from Mr S through his broker – including answers to some questions it had about what some of that information showed. Alongside evidence of income and information about expenditure Tandem was entitled to rely on what Mr S told it unless it had common sense grounds to doubt it.

Income

Tandem received evidence of Mr S's income in the form of three payslips. It took an average of Mr S's two most recent payslips as the payslip for July 2023 showed additional commission and an advance payment deduction. It calculated that Mr S had an average monthly income of £2,266.75 after deductions.

Tandem asked Mr S about the advance payment and commission on the July payslip. Mr S said the advance payment was showing as his employer's HR department had an issue in the previous month, meaning they couldn't pay his commission on time. He said it wasn't really an advance and that his employer had managed to pay the commission but had added it to the following payslip for reference.

I think it was reasonable for Tandem to take an average of Mr S's income without the additional commission and the advance payment, based on the explanation he provided. Tandem has said that when calculating Mr S's year to date net income it would have been higher, and I can see that is the case. However, I think it was right to take a careful approach and base its assessment on the lower average income at the time. I don't consider it would have been reasonable for it to base its assessment on the higher year to date figure, without seeking further evidence of income to show consistency over a longer period. That is, I'm not persuaded Tandem's argument that it could have used the higher figure – based on the evidence it had – is a particularly compelling one. Even if it was, I'm not persuaded it would change the outcome of this case for reasons I'll explain later in this decision.

Expenditure

Tandem has told us it used government guidelines when assessing Mr S's basic household essentials and living costs – unless there was evidence to show those costs were higher for Mr S. I note, for example, that it sought evidence of Mr S's

monthly council tax costs and used that, rather than statistical data, when assessing income and expenditure.

Overall, I don't consider the expenditure figures used – when considered in isolation – appear obviously incorrect or unlikely, when based on one adult with no dependants. And, when considering those monthly outgoings alongside the new loan payment, in theory the loan was affordable for Mr S. When including a stress test on Mr S's first charge mortgage, the figures Tandem used suggested he would have been left with around £160 of disposable income after the loan was provided. But this isn't the end of the matter because other information was available to Tandem that it ought to have taken into account before agreeing to lend.

Credit file and other considerations

At a glance, Mr S's credit file provides a relatively satisfactory picture. He was up to date with his existing credit commitments including his first charge mortgage, for example. But the information available to Tandem within the credit report wasn't limited to that and I'd expect it to consider all available information, before agreeing to lend.

The purpose of Mr S's loan was to consolidate some of his unsecured debts. One of those debts wasn't yet showing on his credit file because it had been taken out very recently – a loan of £13,000. Two other debts were being consolidated, an overdraft of £5,000 and a credit card of £8,000.

In terms of the credit card, Mr S's credit file showed that it was being used regularly up to, or close to, its limit. That alone may not be unusual but the credit file available to Tandem also showed some unusual payments being made to the credit card. On many occasions those payments far exceeded Mr S's monthly income. Below are some examples of the total amount paid to the credit card in a month:

- £5,098 in August 2022
- £3,945 in November 2022
- £4,999 in December 2022
- £17,260 in January 2023
- £8,619 in February 2023
- £7,960 in April 2023
- £5,966 in June 2023

Tandem has said that credit reporting for credit cards can run two months behind and so, can't be relied upon. It's also said these payments could have been balance transfers and notes that Mr S took out a loan in January 2023. I acknowledge that credit file information is not necessarily updated immediately but that doesn't change the fact that there was information available to Tandem before it agreed to provide this loan, that ought to have raised questions about Mr S's credit usage.

I'm not persuaded by Tandem's suggestion that the payments to the credit card could have been balance transfers, because there isn't any evidence on Mr S's credit file from the time of the loan to support this. Regardless, the large payments being made to Mr S's credit card would raise common sense questions to a responsible lender about the level of usage and sustainability. For example: Where was the money coming from to make those payments? How had Mr S afforded to pay just under £52,000 to his credit card in the preceding 12 months alone? And what was he spending that money on?

In August 2022 Mr S had taken out a loan for just over £5,000. A payment for just over £5,000 was also made to Mr S's credit card in the same month. Even without further questions being asked, this suggests that Mr S might have used an unsecured loan to repay his credit card. Two months later, Mr S's credit card had built up to around £5,000 again.

Mr S took out another unsecured loan for around £30,000 in January 2023 – around five months later than the last unsecured loan and only around nine months before he applied for this secured loan. I consider the credit file alone is enough to suggest to Tandem that Mr S may have used the loan proceeds to fund significant usage on his credit card, as the large payments he made to the credit card coincide with when he took this loan. And, at the very least, I consider Tandem ought to have asked more questions about this.

By the time of this secured loan application, Mr S had taken out another unsecured loan for £13,000. Again, looking at the credit card payment history, the credit file raises questions about whether this loan was used to once again consolidate significant credit card debt. I consider Tandem should have asked questions about what this loan was used for too, but it has confirmed it didn't.

In summary Mr S had taken out around £48,000 of unsecured loans in the preceding 12 months before applying for the Tandem secured loan. To add to that, he told Tandem that he needed to repay an overdraft of £5,000. In my view, this information which was available to Tandem at the time of the application shows that Mr S was likely in a debt cycle. And this should have raised significant questions around whether this secured loan would in fact be affordable and sustainable for him.

An important factor in considering this is that two of the credit facilities the secured loan was to be used to clear – an overdraft and a credit card – would give Mr S immediate access to around £13,000 of unsecured credit once repaid with the loan proceeds. And even by just seeing Mr S's credit history, I consider it should be evident to a responsible lender that this would be something Mr S is likely to go on to use. In the most recent three months shown on the credit file, Mr S had an average credit card statement balance of around £5,300 each month. And for that credit card provider a minimum payment of 2.5% of the balance would be required each month. That alone, not factoring in any other expenditure which the bank statements showed would be higher, would use most of the disposable income Tandem recorded.

To add to this, Tandem has provided evidence to show that Mr S had applied for more than 30 loan quotations with it – whether that was directly or through a third-party broker. In its initial correspondence with our Service about this Tandem said that these applications were all declined. But it's later indicated that this wasn't the case. Whether the records provided are simply of loan quotations or declined applications, either way I haven't seen anything to suggest Tandem asked Mr S about this or considered it further before lending.

I'm satisfied that based on the information available to Tandem at the time of Mr S's application, a reasonable lender would have had common sense grounds to doubt the information provided. I consider a responsible lender acting reasonably would have asked to see Mr S's bank statements to verify the expenditure that was declared, questioned his use of credit, and to further consider whether the loan would be sustainable for Mr S.

I've seen copies of Mr S's bank statements covering the most recent months before the secured loan was approved. The Investigator noted that there were regular

payments to Mr S's wife each month, which weren't included in Tandem's affordability assessment. The statements also show incoming transfers from his credit card – which Mr S was using to meet his day-to-day expenditure.

Alongside this, while it's difficult to separate Mr S's spending into distinct categories – for example, separating socialising and food and drink – it's evident that Mr S's expenditure was more than what was recorded in Tandem's affordability assessment. For example, on average during July and August 2023, Mr S spent in the region of £700 each month on takeaways and other transactions likely to be for food, drink or socialising. Taking this into account, even allowing that some of the payments to Mr S's wife might have been for things like clothes, for example – I'm satisfied the additional expenditure seen on the bank statements far outweighed the disposable income recorded by Tandem.

I note that some of the other estimated outgoings, such as utilities, appear to be less on the bank statements than the amount Tandem estimated by using statistical data. But looking at Mr S's outgoings for things like food on average, even if utility costs weren't included at all, I'm satisfied Mr S would still have had a negative disposable income after taking this loan.

There is also the question of sustainability. Mr S was clearly using electronic transfers from his credit card to his current account to support his spending. On 21 August 2023, for example, Mr S paid £300 to his credit card. But, two days later, he transferred £900 from his credit card to his bank account. As I've set out above, it's evident Mr S was in turn relying on further unsecured borrowing to clear his revolving credit card facility. If Tandem had requested his bank statements, as I'm satisfied it should reasonably have done, then not only would they have shown the loan would be unaffordable but also would have shown that the loan would be unsustainable. I think sight of the bank statements would have led to a responsible lender declining the secured loan application for the reasons I've explained.

If Tandem had taken all these things into account, I cannot see how it could have reasonably concluded that this loan would be affordable and sustainable for Mr S. Therefore, if it had acted fairly, it would not have approved this secured loan.

Putting things right

To put things right, I provisionally consider Tandem should remove the fees and interest charged, and it shouldn't apply any further interest or fees to this loan going forward. It should also update Mr S's credit file to show the updated position of the loan. But I don't require it to refund the capital Mr S borrowed as he benefitted from that in using it to clear some of his outstanding debts.

I don't require Tandem to compensate Mr S for any distress and inconvenience caused either. It's fair and reasonable that Tandem doesn't keep interest it should never have charged, and that Mr S isn't charged interest he should never have paid. But as that does result in a likely saving compared to the position he would have been in had the loan not been granted (he would have needed to pay interest on his unsecured debts had they not been consolidated), requiring Tandem to pay separate compensation for distress and inconvenience is likely to result in over-compensation.”

Mr S accepted my provisional decision.

Tandem said it had no additional comments to add to those it had already submitted.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I have again considered my provisional findings but as Mr S accepts my decision and Tandem hasn't added anything further, I see no reason to depart from them.

My final decision

My final decision is that I uphold this complaint and direct Tandem Home Loans Ltd to:

- Re-work Mr S's loan balance as if:
 - The £3,190 fees hadn't been charged;
 - No interest had been charged on the loan; and
 - All payments Mr S has made so far had been used to reduce the capital balance.
- Not charge interest on Mr S's loan going forward and to apply all payments made going forward to reduce the capital.
- Update Mr S's credit file to take account of these changes.
- Work with Mr S to agree an affordable plan going forward for him to repay the remaining capital balance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 7 November 2025.

Keith Barnes
Ombudsman